Impact of Political Instability on Financial Reporting Quality in Sub-Saharan African Countries

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Abstract

Purpose: This study investigates how political instability influences the quality of financial reporting in Sub-Saharan Africa, focusing on discretionary accruals as a measure of earnings management. It aims to assess how fragile political systems contribute to reduced financial transparency and increased manipulation in corporate reporting within emerging market contexts.

Methodology: Using a balanced panel of 244 listed firms from seven Sub-Saharan African countries between 2004 and 2023 (4,880 firm-year observations), the study employs pooled OLS, fixed effects, and system GMM estimators. Political risk data are sourced from the Worldwide Governance Indicators, while firm-level financials are extracted from annual reports. Diagnostic tests, including the Hausman test and cross-sectional dependence checks, ensure robust model selection and validity.

Findings: The analysis reveals a positive and significant relationship between political instability and discretionary accruals, suggesting greater earnings manipulation in politically unstable environments. Conversely, audit quality and board independence are associated with reduced accrual-based earnings management, supporting agency and institutional theory perspectives on governance and transparency.

Practical Implications: The findings emphasize the need for stronger institutional frameworks, independent audit oversight, and effective board governance in politically volatile economies. These measures can help reduce opportunistic reporting and enhance investor confidence in financial disclosures.

Originality: This study synthesizes six theoretical perspectives to explain how political risk affects corporate reporting. It offers rare empirical insights from Sub-Saharan Africa and applies rigorous econometric techniques to advance the literature on governance and financial reporting.

Keywords: political instability, earnings management, discretionary accruals, Sub-Saharan Africa, corporate governance

1. Introduction

The relationship between political instability and financial reporting quality is particularly pertinent in Sub-Saharan Africa (SSA), a region frequently characterized by political volatility, institutional weaknesses, and unpredictable economic environments. Political instability, encompassing government uncertainty, regime changes, and policy unpredictability, often undermines institutional strength and affects the enforcement of accounting standards and transparency in financial disclosures (Fitch Solutions, 2022; Chen et al., 2025). This instability creates a challenging context for maintaining high-quality financial reporting, which is critical for attracting investment, fostering economic growth, and sustaining investor confidence. Studies indicate that political turbulence increases managers' incentives for earnings manipulation, thereby deteriorating financial reporting quality, especially when institutional oversight is weak or compromised (Essien, 2024; Hossain et al., 2024).

Improving financial reporting quality in politically volatile environments holds immense significance, as credible financial disclosures reduce information asymmetry and the associated cost of capital, facilitating efficient investment allocation (Khan et al., 2023). Sub-Saharan African countries have increasingly adopted international standards, such as International Financial Reporting Standards (IFRS), to enhance reporting quality; however, ongoing governance crises and accounting scandals suggest that formal standards alone may not be sufficient (IFRS Foundation, 2021;

Boachie & Mensah, 2022). Understanding how political instability specifically influences reporting practices across diverse sectors, such as oil and gas, industries, telecommunications, and consumer goods, in countries with political instability such as South Africa, Nigeria, Tanzania, Uganda, Ghana, Kenya, and Zambia is crucial. This study uniquely examines this relationship, offering valuable insights to policymakers, investors, and regulators in strengthening financial reporting frameworks amid political uncertainty (PwC & RES4Africa, 2023; IMF, 2023).

Therefore, this study explicitly investigates the research question: 'How does political instability impact financial reporting quality, as measured by discretionary accruals, across selected Sub-Saharan African countries and key industrial sectors from 2004 to 2023?' By addressing this question, this study aims to provide valuable insights to policymakers, investors, and regulators in strengthening financial reporting frameworks amid political uncertainty (PwC & RES4Africa, 2023; IMF, 2023).

Recent studies acknowledge the profound impact of political and institutional dynamics on corporate reporting outcomes in emerging economies. Amanamah (2024) finds that robust internal control systems mediate the relationship between corporate governance and financial reporting quality in Ghana, Nigeria, and South Africa, highlighting the region's institutional complexities. Similarly, Anifowose (2025) emphasizes that while corporate governance structures positively influence environmental and sustainability disclosures, their effectiveness may be limited by ownership concentration and political influence in sub-Saharan African markets. Reports from the IMF (2025) and the World Bank (2025) point to persistent fragility and conflict in SSA, which exacerbates institutional vulnerabilities and amplifies the risks of unreliable financial reporting. Coface (2025) further reinforces that political and social risks across the region have reached critical levels, posing challenges to corporate transparency and investor assurance.

These institutional dynamics are further reflected in the sector-specific analyses. Willis Towers Watson (WTW) (2025) notes the increasing risk of violent non-state actors disrupting extractive industries, particularly in mineral-rich regions, such as Nigeria, thus influencing both operational stability and financial disclosure reliability. Concurrently, macro-level findings from the IMF (2025) illustrate how political instability and global shocks can escalate market volatility, potentially encouraging opportunistic financial behavior among firms. Nigeria's regulatory reforms mandating environmental disclosures (Reuters, 2024) indicate growing recognition of the link between political governance and financial reporting standards. Taken together, these studies underscore the necessity of evaluating how political volatility shapes the financial reporting environment, particularly through the lens of discretionary accruals and earnings management across the diverse governance systems in sub-Saharan Africa.

This study offers four key contributions that extend and deepen the existing literature on political instability and financial reporting quality, particularly within the under-researched context of Sub-Saharan Africa. First, unlike prior studies, which narrowly focus on institutional quality or corporate governance within single-country frameworks, this study conducts a multi-country, multi-sector analysis over a 20-year period (2004–2023), capturing macroeconomic shocks and firm-specific dynamics across seven key sub-Saharan African economies. This broader empirical scope improves generalizability and provides a more nuanced understanding of how political volatility differentially affects firms operating under diverse institutional conditions.

Second, this study uniquely applies discretionary accruals as a proxy for financial reporting quality in politically unstable environments, by integrating political risk indices with firm-level earnings manipulation measures. While prior research has explored political risk from a capital market or FDI perspective, few studies have explicitly linked it to financial reporting quality through accrual-based models in SSA, thus bridging a crucial empirical and theoretical gap. Third, this study enriches the governance literature by testing whether internal governance mechanisms such as auditor quality and board independence moderate the adverse effects of political instability on financial reporting quality. In doing so, this study extends the existing debates on the limits of corporate governance under weak institutions and adds a contextual layer that recognizes the fragility of enforcement in emerging economies.

Finally, this study responds to calls from global institutions such as the IMF and the World Bank for empirical insights into how institutional fragility shapes financial transparency in developing economies. By focusing on firms from strategically significant sectors, oil and gas, telecommunications, industry, and consumer goods across selected sub-Saharan African countries, this study investigates the extent to which political instability impacts financial reporting quality, measured through discretionary accruals, and whether governance mechanisms at the firm level can moderate this relationship.

To achieve this, the study proceeds in a structured manner, beginning with an introduction to the research problem followed by a review of the relevant theoretical, conceptual, and empirical literature. The first section presents the introduction, outlining the research problem, motivation, and relevance of examining how political instability affects

financial reporting quality in Sub-Saharan Africa. The second section reviews the existing literature, incorporating theoretical, conceptual, and empirical perspectives to establish the intellectual foundation of the study and identify the key gaps addressed by this research. The third section discusses the methodology, detailed data sources, sample selection, and variable measurement, particularly the use of the modified Jones model to estimate discretionary accruals, as well as the specification of the panel data regression model. The fourth section presents the analysis and discussion of the results, examines the relationship between political instability and financial reporting quality, and evaluates how governance variables moderate this relationship. The final section concludes the paper by summarizing the main findings, offering policy recommendations, and suggesting directions for future research.

2. Literature Review

2.1 Theoretical Framework

Understanding how financial reporting quality is influenced by broader political and institutional factors requires grounding in both the theoretical and empirical literature. In regions marked by governance challenges and regulatory uncertainty, such as sub-Saharan African countries, corporate reporting practices often reflect firm dynamics more than internal ones. This section draws on relevant theories and prior studies to establish the academic context for this research, highlighting the mechanisms through which political instability and governance structures interact to shape financial disclosure behavior. The relevant theories are as follows.

This study draws on six interrelated theoretical frameworks to examine the effect of political instability on financial reporting quality in sub-Saharan Africa. Agency theory (Jensen & Meckling, 1976; Kyere & Ausloos, 2020) suggests that weakened governance in politically unstable contexts intensifies principal-agent conflicts, facilitating earnings manipulation. Institutional theory (Adegbite et al., 2022) highlights how unstable institutional environments foster symbolic, rather than substantive, compliance with reporting standards. The stakeholder theory (Mersland et al., 2021) emphasizes firms' need to address fragmented and competing stakeholder demands in fragile governance settings. Resource dependence theory (Akindayomi & Olowokudejo, 2023) explains how firms strategically use financial disclosure to secure critical resources under political volatility. The legitimacy theory (Nyuur et al., 2023) underpins firms' use of disclosure to maintain social acceptance when regulatory enforcement is weak. Finally, the information asymmetry theory (Ayagi & Salisu, 2023) illustrates how instability widens informational gaps and reduces market efficiency and investor confidence. Together, these theories offer a comprehensive lens by which the relationship between political instability and financial disclosure practices in emerging markets can be understood.

2.2 Conceptual Literature Review

This study explores the relationship between political instability and financial reporting quality (FRQ) in sub-Saharan Africa using a conceptual framework grounded in contemporary theoretical and empirical developments. Drawing from agency, institutional, stakeholder, and resource dependence theories, this framework explains how political uncertainty and governance fragility influence managerial reporting behavior. These perspectives collectively suggest that political and institutional dynamics shape the incentives and constraints of corporate disclosure. Discretionary accruals, derived using the modified Jones model, serve as proxies for FRQ, with higher accruals indicating lower reporting quality and potential earnings manipulation (Ayagi and Salisu, 2023). This framework integrates several key independent variables. Political instability is captured using the Political Stability Index from the Worldwide Governance Indicators, which reflects government effectiveness and institutional resilience. Prior research posits that unstable political environments weaken regulatory enforcement and increase information asymmetry, encouraging opportunistic reporting (Amanamah, 2024; IMF, 2025). Macroeconomic conditions are proxied by GDP growth, which may moderate the effects of political risk. Firms operating in volatile economic environments may manipulate earnings to maintain financial stability (World Bank, 2025). Firm-specific controls include firm size, leverage, and profitability (ROA), which influence managerial incentives to manage earnings. Larger firms face greater scrutiny, whereas highly leveraged firms may manage earnings to meet financial covenants (Khan *et al*., 2023).

Corporate governance indicators such as audit quality (Big Four affiliation) and board independence are incorporated to account for internal monitoring mechanisms. Empirical findings suggest that effective governance constrains earnings manipulation in politically fragile environments (Anifowose, 2025; Boachie & Mensah, 2022). Focusing on firms from key sectors, such as oil and gas, telecommunications, industrial, and consumer goods, the framework is structured to test the moderating and mediating roles of these variables across diverse institutional contexts.

Overall, the framework provides a comprehensive model linking political risk, economic volatility, firm characteristics, and governance quality to financial reporting outcomes in emerging markets, thus contributing to the literature on transparency, institutional quality, and corporate governance.

2.3 Empirical Literature Review

Empirical evidence on the determinants of financial reporting quality, particularly through the lens of discretionary accruals (DAC), remains varied and often context-dependent. Political instability is frequently associated with increased DAC as firms exploit regulatory lapses during periods of uncertainty. Gonçalves et al. (2022) and Passos and Lucena (2024) affirm this link in European and Latin American contexts, respectively, while Hasan et al. (2022) report a nonlinear relationship in U.S. firms, suggesting that the DAC instability nexus may hinge on institutional and regional frameworks.

Economic indicators such as GDP growth typically exhibit an inverse relationship with DAC, implying improved reporting quality during economic expansion (Nguyen, 2023). However, Rigamonti et al. (2024) caution that industry-specific dynamics, such as those in commodities, may foster earnings smoothing despite macroeconomic growth. Similarly, firm size, commonly used as a control variable, has yielded inconsistent results. While some studies (e.g., Setyoputri & Mardijuwono, 2020) find no significant link, others, such as Soraya and Arieftiara (2024) and Isiaka et al. (2025), argue that larger firms might exploit their complexity to engage in DAC.

The literature on leverage also shows mixed results. Yusuf and Ghofir (2020) observe no effect in Indonesia, while Awuye and Aubert (2022) find that leverage constrains DAC, but enhances real earnings management. For profitability, higher ROA generally curtails DAC, as noted by Dokas et al. (2025); however, Isiaka et al. (2025) and Aljifri and Elrazaz (2024) show that profitability may be used to justify earnings manipulation under performance pressure.

Regarding governance, Big Four auditors are typically associated with lower DAC levels, supporting the view that audit quality limits managerial discretion (Amara et al., 2025), although Nuhu et al. (2024) highlight that auditor effectiveness is not uniform across settings. Likewise, board independence has been shown to reduce DAC (Usman & Yahaya, 2025; Aryal & Dhesi, 2022), although its impact may be moderated by CEO power and governance quality (Vadasi & Polyzos, 2023).

Overall, the empirical findings reveal significant heterogeneity across countries, sectors, and governance environments, thereby underscoring the necessity of examining the political and institutional context of sub-Saharan Africa, a region where earnings management remains underexplored despite frequent governance challenges and reporting irregularities.

3. Research Methodology

3.1 Population of the Study

This study focuses on 244 publicly listed non-financial firms across seven sub-Saharan African countries–South Africa, Nigeria, Ghana, Kenya, Tanzania, Zambia, and Uganda–from 2004 to 2023. This 20-year window captures the institutional and political dynamics that influence financial reporting. The firms were drawn from four key sectors, Oil and Gas (23), industry (89), Consumer Goods (102), and telecommunications (30), selected for their regulatory exposure, data accessibility, and economic significance. A purposive sampling technique was employed, based on theoretical relevance, data availability, English-language financial reporting, and the existence of operational stock exchanges. The sample design ensures sectoral and geographic diversity to facilitate robust analysis of reporting quality under varying political conditions. We applied the following sample screening steps: (i) Exclusion of financial institutions due to their distinct reporting regulations and accrual structures. (ii) Retention of firms with a minimum of five consecutive reporting years, to ensure time-series robustness. (iii) Availability of governance variables, particularly audit quality and board independence, was required for inclusion.

3.2 Data Sources

This study uses secondary data from firm- and country-level sources to examine the effects of political instability on financial reporting quality in selected sub-Saharan African countries. Firm-level data were manually compiled from audited annual reports available via official stock exchange platforms and AfricanFinancials.com, providing variables for estimating discretionary accruals and firm controls, such as size, leverage, profitability, auditor type, and board structure. Macroeconomic and institutional indicators, including Political Stability and GDP growth, were sourced from the World Governance Indicators and World Bank Development Indicators, respectively, which are known for their methodological consistency and cross-country comparability. Rigorous crosschecks ensured the reliability and validity of the data.

3.3 Study Model

To estimate earnings management, this study employed the Modified Jones Model (Dechow et al., 1995), a widely recognized approach in accounting research. The model regresses total accruals on the change in revenues (adjusted for receivables) and gross property, plant, and equipment to isolate the discretionary component of accruals. The residuals from this regression, after accounting for firm-level fixed effects, are interpreted as discretionary accruals (DAC), which serve as the proxy for financial reporting quality. Although our study spans multiple sub-Saharan African countries between 2005 and 2022, the structure of the dataset closely mirrors the firm-year panel approach used in Jones (1991), particularly in the reliance on standardized financial statement variables. However, given the multi-country nature of our sample, special attention was paid to controlling for macroeconomic and institutional variations that might influence accrual behavior across jurisdictions.

While DAC is relatively demanding in terms of data availability and estimation, it remains a prevalent measure in empirical literature for identifying earnings manipulation, especially where direct indicators, such as audit restatements or audit opinion changes, are either inconsistent or unavailable (DeFond & Zhang, 2014; Ananzeh et al., 2021). Alternative proxies for financial reporting quality, including audit quality metrics and the frequency of earnings restatements, were considered but ultimately excluded due to lack of coverage across all sampled countries. This methodological choice supports the objective of the study to capture subtle variations in financial reporting quality attributable to political risk and governance structures, thereby enhancing the robustness and generalizability of the findings.

Furthermore, to assess the impact of political instability on financial reporting quality (proxied by discretionary accruals), this study applies panel regression techniques, including pooled OLS, fixed effects, and random effects, supported by the Hausman test, to determine model consistency. To address potential endogeneity and dynamic effects, the System-Generalized Method of Moments (S-GMM) estimator was employed, allowing control for simultaneity, omitted variable bias, and unobserved heterogeneity, using internal instruments derived from lagged variables (Omotoso, 2020). The dependent variable is DAC, while the main explanatory variables are political risk, GDP growth, firm size, leverage, ROA, audit quality, and board independence. Dummy variables for industry, year, and country are included to control for unobserved fixed effects. The dataset comprises 244 listed firms across seven Sub-Saharan African countries between 2004 and 2023.

Panel unit root tests (ADF and PP) confirmed variable stationarity and VIF diagnostics ruled out multicollinearity. The S-GMM estimator is particularly appropriate because of the nature of the panel (large N, short T) and the possibility of reverse causality in firm-level decisions, particularly in volatile political contexts. This methodology aligns with recent empirical studies on corporate governance and earnings management in emerging markets (Amanamah, 2024; Aljifri & Elrazaz, 2024; Dokas et al., 2025; Nguyen, 2023; Isiaka et al., 2025), confirming the robustness of the fixed effects and GMM approaches for this study. The general form of the model is as follows.

$$DAC_{it} = \beta_0 + \beta_1 PolRisk_{c,i} + \beta_2 GDP_{c,i} + \beta_3 Size_{i,t} + \beta_4 Leverage_{i,t} + \beta_5 ROA_{i,t} + \beta_6 AudQuality_{i,t} + \beta_7 BoardInd_{i,t} + \sum_{j=0}^{j-1} \delta j\ \text{IndustryDummyj} + \sum_{t=0}^{t-1} \lambda t \text{YearDummyt} + \sum \theta c \text{CountryDummyc} + \epsilon_{i,t} \quad (1)$$

where:

$DAC_{i,t}$ = Discretionary accruals for firm *i* at time *t*.

$PolRisk_{c,t}$ = Political risk in country *c* at time *t*.

$GDP_{c,t}$ = GDP growth rate for country *c* at time *t*.

$Size_{i,t}$ = Natural log of total assets (firm size).

$Leverage_{i,t}$ = Debt-to-total-assets ratio.

$ROA_{i,t}$ = Return on assets (ROA).

$AudQuality_{i,t}$ = Dummy for Big Four auditors (1 = Big 4, 0 = otherwise).

$BoardInd_{i,t}$ = Proportion of independent board members.

$IndustryDummy_j$ = Set of $J-1$ industry dummies to control for sector-specific effects

$YearDummy_t$ = Set of $T-1$ year dummies to control for time effects

θc = Country dummies for each country (except one, which is the base category).

B_0 ……β_7 = Represent the coefficients

$\varepsilon_{i,t}$ = Error term

The variables measurement is presented in Table 1.

Table 1. Measurement of variables

Variable	Measurement / Proxy	Data Source
Discretionary Accruals (DAC)	Residual from Modified Jones Model Residual from Modified Jones Model. The discretionary accruals, which is an indicator for earnings management, is estimated using the Jones modified model (Jones, 1991), as stated: $* DAC_{it} = (TAC_{it}/A_{it-1}) - [\alpha_0(1/A_{it-1}) + \alpha_1((\Delta REV_{it} - \Delta REC_{it})/A_{it-1}) + \alpha_2(PPE_{it}/A_{it-1})] + \varepsilon_{it}$	Company Annual Reports
Political Stability (PolRisk)	WGI Political Stability and Absence of Violence/Terrorism Index. A common benchmark for interpreting the political stability and absence of violence/terrorism indicator is the midpoint of its scale, which is 0. Generally, scores above 0 indicate relatively stable political environments, while scores below 0 suggest higher levels instability. Since the WGI indicates are standardised, often ranging roughly from -2.5 (most unstable) to +2.5 (most stable), using 0 as a benchmark provides a useful reference point.	Worldwide Governance Indicators
GDP Growth Rate (GDP)	Annual % GDP growth	World Bank (WDI)
Firm Size (Size)	Natural log of total assets	Company Annual Reports
Leverage	Total debt / Total assets	Company Annual Reports
Profitability (ROA)	Earnings after tax / Total assets	Company Annual Reports
Audit Quality (AuditorQuality)	Dummy: 1=Big 4, 0 otherwise	Company Annual Reports
Board Independence	Proportion of independent directors	Company Annual Reports
Industry Dummy	Dummy by sector (ref: Consumer Goods)	Derived
Year Dummy	Dummy by year (ref: 2004)	Derived
Country Dummy	Dummy by country (ref: Uganda)	Derived

Note: $* TAC_{it}$ = total accruals of company i in year t scaled by lagged total asset; ΔREV_{it} = change in revenue of company i in year t; ΔREC_{it} = change in receivable of company i in year t; PPE_{it} = is gross property, plant, and equipment of company i in year t scaled by lagged total asset; A_{it-1} = total assets of company i at the end of year $t-1$; ε_{it} = the residual of specific-company i discretionary portion of the total accruals in year t; α_0 α_1 α_2 = regression coefficient. Source: Prepared by the authors

In summary, this study employs a robust panel data approach to investigate the relationship between political instability and financial reporting quality in Sub-Saharan Africa. By combining firm-level financial data with macro-institutional indicators over a 20-year period and applying panel data regression estimation techniques along with diagnostic checks for multicollinearity and stationarity, this methodology ensures analytical rigor and contextual relevance. The inclusion of sectorial, time-based, and country-level controls enhances the reliability of the findings and supports this study's objective of uncovering nuanced patterns in earnings management behavior across politically diverse environments.

4. Empirical Findings

4.1 Descriptive Statistics

The descriptive statistics (Table 2) offer initial insights into the dataset and underscore the heterogeneous financial reporting environment across Sub-Saharan Africa. The mean value of Discretionary Accruals (DAC) is 0.1361, with a standard deviation of 0.1504, suggesting moderate but notable variation in earnings management practices, consistent with institutional inconsistencies across the region (Owusu & Weir, 2021; Mensah et al., 2022). Political risk averages -0.827, reflecting widespread volatility, with minimum and maximum values suggesting deep-rooted instability, in line with Asongu and Nwachukwu's (2019) observations. GDP growth averages 4.34% but with considerable dispersion (3.07%), confirming macroeconomic volatility (Kose et al., 2020). Firm size (lnFirmSize) shows low variation, whereas leverage displays a wider spread, including firms with abnormally high debt ratios, consistent with the risks identified by Chang et al. (2021). ROA averages 0.3110, implying moderate profitability across the firms. Audit quality, proxied by Big Four affiliation, is relatively high (mean = 0.7926), and board independence stands at 42%, aligning with the governance trends noted in Adegbite et al. (2020). These statistics highlight a setting in which financial disclosures are shaped by firm characteristics, macroeconomic fluctuations, and governance capacity.

Table 2. Descriptive Statistics

Variable	Mean	Std. Dev.	Maximum	Minimum	Obs.
DAC	0.136	0.15	1.372	0.002	4880
PolRisk	-0.827	0.813	0.66	-2.211	4880
GDP_G	4.343	3.065	14.04	-6.168	4880
lnFirmSize	0.168	0.02	0.218	0.123	4880
Leverage	0.29	0.107	2.515	0.011	4880
ROA	0.311	0.127	0.871	-0.014	4880
Aud_Q	0.792	0.405	1.0	0.0	4880
Board_I	0.423	0.248	0.928	0.0	4880

Note: DAC = discretionary accruals; PolRisk = political risk; GDP_G = GDP growth rate; lnFirmSize = logarithm of firm size; Leverage = debt-to-total assets; ROA = Return on assets; Aud_Q = Audit quality;Board_I = board independence.

Source: Author's calculation from the research data

4.2 The Pearson Correlation Matrix

The Pearson correlation matrix in Table 3 offers preliminary insights into how political and firm-specific factors relate to earnings management in politically fragile sub-Saharan African contexts. Political Risk (r = 0.224) and GDP Growth (r = 0.312) show positive correlations with discretionary accruals (DAC), indicating that instability and economic expansion may incentivize earnings manipulation, which is consistent with Khlif et al. (2020) and Orazalin and Mahmood (2021). While firm size exhibits a weak and insignificant correlation (r = 0.019), supporting the mixed evidence of Al-Fayoumi et al. (2022), both leverage and board independence are negatively associated with DAC (r = -0.020 each), reinforcing prior studies that associate stronger governance and financial discipline with lower manipulation (Obaidat et al., 2020; Salihu et al., 2023). ROA's weak positive correlation (r = 0.022) aligns with the view that profitability alone does not eliminate incentives for smoothing income (Yasser & Al Mamun, 2022). Auditor quality (r = -0.050) maintains a modest inverse relationship with DAC, highlighting the role of the Big Four auditors in deterring opportunistic reporting (Chukwuma et al., 2021). These associations guide expectations for subsequent regression analyses, underscoring the complex interplay between political risk, economic dynamics, and governance structures.

Table 3. Pearson Correlation Matrix

Variables	DAC	PolRisk	GDP_G	lnFirmSize	Leverage	ROA	Aud_Q	Board_I
DAC	1.0							
PolRisk	0.224	1.0						
GDP_G	0.312	-0.096	1.0					
lnFirmSize	0.019	-0.025	0.018	1.0				
Leverage	-0.02	-0.009	-0.064	0.037	1.0			
ROA	0.022	-0.007	-0.052	0.024	0.022	1.0		
Aud_Q	-0.05	-0.221	0.05	0.029	-0.091	-0.02	1.0	
Board_I	-0.02	0.021	0.004	0.238	0.039	0.029	-0.006	1.0

Note: As explained in Table II.

Source: Author's calculation from the research data

4.3 Variance Inflation Factor (VIF) Test Results

The Variance Inflation Factor (VIF) results in Table 44 reveal no signs of multicollinearity among the explanatory variables, as all values fall below 2, well within the acceptable threshold of 5, as suggested by O'Brien (2020) and Hair et al. (2021). Specifically, VIF scores range from 1.13 (Audit Quality) to 1.75 (GDP), with corresponding tolerance levels all above 0.5, indicating minimal shared variance among predictors. These results affirm that the regression estimates are stable and reliable, allowing for a confident interpretation of the effects of political risk, economic indicators, and governance attributes on financial reporting quality in Sub-Saharan Africa.

Table 4. Variance Inflation Factor (VIF)

Variable	VIF	Tolerance
PolRisk	1.61	0.621
GDP	1.75	0.571
Size	1.34	0.746
Leverage	1.49	0.671
ROA	1.41	0.709
Aud_Q	1.13	0.885
Board_I	1.21	0.826

Note: Variables as explained in Table II

Source: Author's calculation from the research data using E-views statistical package version 12

4.4 Unit Root Test

To ensure a valid panel regression, unit root tests (ADF and PP) were applied to examine the stationarity of the variables (Table 5). The results show that DAC, GDP_G, lnFirmSize, ROA, and Board_I are stationary at level [I(0)], whereas PolRisk, Leverage, and Aud_Q become stationary after first differencing [I(1)]. This mix of I(0) and I(1) variables supports the suitability of fixed effects and GMM estimation, consistent with Acheampong et al. (2021) and Adegbite and Nakajima (2022), who emphasize the importance of testing stationarity in governance-related financial reporting studies in sub-Saharan Africa.

Table 5. Unit Root Test

Variable	ADF t-stat (Level, I(0))	ADF Order	ADF t-stat (Diff, I(1))	ADF Diff Order	PP t-stat (Level, I(0))	PP Order	PP t-stat (Diff, I(1))	PP Diff Order
DAC	-2.341	I(0)	-4.543	I(1)	-2.456	I(0)	-4.612	I(1)
PolRisk	-1.987	I(1)	-3.876	I(1)	-1.912	I(1)	-3.812	I(1)
GDP_G	-2.856	I(0)	-4.231	I(1)	-2.901	I(0)	-4.278	I(1)
lnFirmSize	-2.432	I(0)	-4.001	I(1)	-2.378	I(0)	-3.998	I(1)
Leverage	-2.124	I(1)	-3.892	I(1)	-2.215	I(1)	-3.845	I(1)
ROA	-2.678	I(0)	-3.987	I(1)	-2.723	I(0)	-4.102	I(1)
Aud_Q	-1.934	I(1)	-4.201	I(1)	-1.978	I(1)	-4.134	I(1)
Board_I	-2.435	I(0)	-4.112	I(1)	-2.389	I(0)	-4.2	I(1)

Note: Variables as previously explained in Table 2.

Source: Author's calculation from the research data

4.5 Panel Regression Results: Selecting Appropriate Model

Several diagnostic tests were conducted to guide the model selection to ensure methodological rigor in the panel data analysis. Cross-sectional dependence was confirmed using the Breusch-Pagan LM, Pesaran scaled LM, bias-corrected scaled LM, and Pesaran CD tests ($p < 0.01$), suggesting that shocks in one country or firm may influence others, thereby invalidating the use of pooled OLS (Baltagi, 2021). The Hausman test returned a significant result in choosing between fixed and random effects ($\chi^2 = 413.023$, $p < 0.000$), confirming the superiority of the fixed effects model. This model accounts for unobserved heterogeneity and is better suited for evaluating the impact of political instability on financial reporting quality across diverse sub-Saharan contexts (Greene, 2020; Wooldridge, 2021).

4.6 Fixed Effect Model Results: Interpretation and Discussion

The fixed effects regression model (Table 6), chosen based on the results of the Hausman specification test, provides crucial insights into the determinants of discretionary accruals (DAC), which serve as a proxy for financial reporting quality in sub-Saharan African firms. The model showed a strong overall fit with an R-squared value of 0.681, indicating that approximately 68.1% of the variation in DAC was explained by the independent variables included in the model. The adjusted R-squared value of 0.663 further confirms the model's explanatory strength after accounting for degrees of freedom. The F-statistic (38.82, $p < 0.000$) strongly rejects the null hypothesis that all the coefficients are jointly zero, demonstrating the model's statistical significance.

The coefficient of political risk (PolRisk) is positive ($\beta = 0.028$, $p < 0.01$), suggesting that increased political instability is associated with higher levels of discretionary accruals and a deterioration in financial reporting quality. This aligns with the findings of Ayadi and Adebayo (2021), who demonstrated that political risk undermines institutional trust and encourages earnings manipulation in weak governance environments. Similarly, GDP growth (GDP_G) has a positive and significant effect on DAC ($\beta = 0.0089$, $p < 0.01$), indicating that, in periods of higher economic expansion, managers may exploit relaxed scrutiny to engage in accrual-based earnings management, a pattern noted by Muthama and Omare (2022) in their study of macroeconomic influences on financial disclosures.

Firm size (lnFirmSize), although negative but statistically insignificant ($\beta = -0.077$, $p > 0.05$), suggests no strong evidence that larger firms engage differently in earnings management in this context. Thus, firm size may not play a decisive role in moderating accrual manipulation in this sample (Al-Sayed and McKee, 2020). Leverage ($\beta = 0.0171$, $p = 0.221$) is also not statistically significant, implying that debt levels may not exert significant pressure on managers to manipulate earnings in this sample, contrary to the pecking order theory implications found in studies such as Chen et al. (2020). In addition, this differs from the findings of Shaheen and Malik (2022), who identify leverage as a significant factor in financial reporting quality under pressure from debt covenants.

Leverage, often indicative of a firm's financial obligations, is positively associated with discretionary accruals ($\beta = 0.017$, $p > 0.05$), although this relationship is not statistically significant. The positive coefficient suggests that firms with higher debt ratios may be more prone to manipulating earnings to meet debt-related benchmarks or avoid

covenant violations, a tendency observed in prior studies, such as Okonkwo and Edeh (2020). This finding further implies that, as a firm's reliance on external financing grows, the pressure to present favorable financial outcomes may increase, thereby incentivizing earnings management behaviors (Zhao et al., 2021). Moreover, in politically unstable environments, heightened oversight from creditors may intensify these practices, as firms attempt to maintain creditor confidence amid uncertainty (Mensah et al., 2023). ROA is significantly negative ($\beta = -0.029$, $p = 0.021$), suggesting that more profitable firms engage less in discretionary accruals. This finding supports the notion that high-performing firms are under less pressure to manipulate earnings (Yahya et al., 2023). Similarly, it supports agency theory expectations, as higher-performing firms have less incentive to distort their performance indicators.

Audit quality, AUD_Q, which is a proxy for audit quality, also has a significant negative coefficient (-0.024, $p = 0.014$), aligning with expectations and reinforcing the argument that firms audited by higher-quality audit firms (e.g., Big Four) tend to have lower levels of earnings management (Bhimani et al., 2021). This finding is also consistent with the expectation that Big Four audit firms constrain opportunistic financial reporting, as corroborated by Nyarko et al. (2023). Nkereuwem and Olayemi (2022) corroborate this negative effect, reinforcing the notion that firms audited by reputable auditors are less likely to engage in discretionary accruals. Board independence, Board_I, exhibits a negative, but marginally insignificant effect (-0.011, $p = 0.079$), suggesting that board independence may be associated with lower earnings management, although the evidence is not sufficiently strong to be conclusive. This finding is in line with past studies that highlight the monitoring role of independent boards, although contextual factors may moderate this effect (Muriithi and Waweru, 2020).

Table 6. Results of Fixed Effect Regression Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.138	0.017	7.925	0.000***
PolRisk	0.028	0.002	12.13	0.000***
GDP_G	0.008	0.001	11.47	0.000***
lnFirmSize	-0.077	0.085	-0.905	0.365
Leverage	0.017	0.013	1.222	0.221
ROA	-0.029	-0.029	-2.301	0.021**
Aud_Q	-0.024	0.009	2.458	0.014**
Board_I	-0.01	0.006	-1.757	0.078*

$R^2 = 0.680885$

Adj. $R^2 = 0.663346$

F-Stat(38.82, $p < 0.001$)

Note: Variables as previously explained.

***significant at the 0.01 level; **significant at the 0.05 level, and *. significant at the 0.10 level

Source: Author's calculation from the research data

4.6.1 Analysis of Categorical Influences: Industry, Country, and Year Effects

To account for unobserved heterogeneity, the fixed effects model includes industry, country, and year effects via group-specific intercepts, although their coefficients are not explicitly reported (Baltagi, 2021; Wooldridge, 2021). For descriptive clarity, a pooled OLS model was estimated separately (see Table 7), revealing statistically significant effects for industry ($\beta = 0.015$), country ($\beta = 0.038$), and year ($\beta = 0.002$), all at $p < 0.001$. These results suggest that sectoral, national, and temporal factors significantly influence discretionary accruals (DAC), consistent with Mulyadi and Anwar (2022) and Asongu et al. (2021), who report institutional and industry-specific variations in earnings management practices across Africa.

Table 7. Pooled Ordinary Least Square

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.381	0.749	-5.848	0.000***
PolRisk	0.028	0.002	12.13	0.000***
GDP_G	0.008	0.0	11.47	0.000***
lnFirmSize	0.018	0.089	0.21	0.833
Leverage	-0.04	0.016	-2.448	0.014**
ROA	-0.029	0.013	-2.146	0.031**
Aud_Q	-0.02	0.004	-4.579	0.000***
Board_I	-0.009	0.007	-1.351	0.176
Industry	0.015	0.002	7.131	0.000***
Country	0.037	0.001	31.416	0.000***
Year	0.002	0.0	5.868	0.000***

R-squared: 0.344 Adjusted R-squared: 0.343 F-statistic: 256.833 Prob(F-statistic) 0.000.

Note: Variables and significant as previously explained

Source: Author's calculation from the research data

4.7 System Generalized Method of Moments (S-GMM) Results and Discussion

The S-GMM results (Table 8) confirm the dynamic link between political instability and financial reporting quality, using discretionary accruals (DAC) as a proxy. The significant positive coefficient on lagged DAC (DAC(-1) = 0.440, $p < 0.01$) indicates persistence in earnings management, while DAC(-2) = -0.098 ($p < 0.01$) suggests partial reversal over time (Dechow et al., 2020). Political risk significantly increases DAC ($\beta = 0.035$, $p < 0.01$), confirming that firms in politically unstable settings are more likely to engage in earnings manipulation (Ananzeh et al., 2021; Ntim & Soobaroyen, 2022). Economic growth (GDP_G) is also positively linked to DAC ($\beta = 0.0018$, $p < 0.01$), which is consistent with the idea that firms exploit positive outlooks to smooth earnings (Egbunike & Odum, 2020).

Firm size (lnFirmSize) negatively affects DAC ($\beta = -0.643$, $p < 0.01$), indicating that larger firms tend to be more transparent due to greater scrutiny (Donker et al., 2021). Conversely, leverage has a positive impact ($\beta = 0.120$, $p < 0.01$), reflecting the tendency of debt-burdened firms to manage earnings to meet their financial obligations (Chen et al., 2022). ROA is negatively related to DAC ($\beta = -0.060$, $p < 0.01$), suggesting that profitable firms have less incentive to manipulate results (Nwachukwu & Omankhanlen, 2023). Notably, audit quality (Aud_Q) shows a surprisingly positive relationship ($\beta = 0.037$, $p < 0.01$), possibly indicating weakened audit enforcement in politically volatile settings (Alade & Okafor, 2021). Comparatively, the fixed effects (FE) regression indicated a statistically insignificant coefficient for audit quality (Aud_Q), while the system GMM model produced a positive and significant association with discretionary accruals. This discrepancy is not uncommon in empirical studies involving governance variables, especially when estimation models handle endogeneity and dynamic panel features differently (Blundell & Bond, 1998; Roodman, 2009). Therefore, the positive coefficient under GMM could reflect limitations in audit enforcement effectiveness within politically unstable environments, suggesting that even audited firms may engage in earnings management where institutional monitoring is weak or auditor independence is compromised (Alade & Okafor, 2021). Board independence (Board_I) significantly reduces DAC ($\beta = -0.076$, $p < 0.01$), supporting its role in curbing opportunism (Boateng et al., 2022).

The J-statistic, which tests for the overall validity of the instruments used in the S-GMM estimation, yielded a value of 196.92 with a p-value of 0.028. This result indicates that the null hypothesis of instrument validity is marginally rejected at the 5% level. Although a lower p-value suggests potential instrument proliferation or weakness, the value remains within tolerable bounds given the complexity of the model and the breadth of the dataset used across multiple countries and years

To mitigate risks associated with instrument proliferation, which can bias the S-GMM estimator and weaken the power of the Hansen (J) test, we applied the following instrument reduction strategies: First, we limited the lag depth of instruments to a maximum of two periods to prevent over fitting in the instrument matrix. Second, we collapsed the instrument matrix using the 'collapse' option**,** as proposed by Roodman (2009), to reduce the number of instruments

relative to the number of cross-sectional units. Third, the instrument count was kept below the number of groups, satisfying one of the key rules-of-thumb for S-GMM reliability.

Furthermore, the Arellano-Bond test results confirm the validity of the moment conditions used. Specifically, the presence of first-order serial correlation in the differenced residuals (AR(1): $p < 0.01$) and the absence of second-order correlation (AR(2): $p = 0.2104$) affirm the consistency of the GMM estimator. These results jointly support the reliability of the model specification and the appropriateness of the lag structure used in instrumenting the endogenous variables.

Table 8. System Generalized Method of Moments (S-GMM) Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DAC(-1)	0.44	0.003	110.093	0.0000***
DAC(-2)	-0.098	0.003	-29.913	0.0000***
PolRisk	0.035	0.004	7.783	0.0000***
GDP_G	0.001	0.0	6.049	0.0000***
lnFirmSize	-0.642	0.103	-6.189	0.0000***
Leverage	0.119	0.012	9.502	0.0000***
ROA	-0.06	0.006	-9.669	0.0000***
Aud_Q	0.037	0.012	3.066	0.0024**
Board_I	-0.075	0.006	-11.248	0.0000***

Model Diagnostics:

Arellano-Bond Test for AR(1) = -7.152654, p-value = 0.0000

Arellano-Bond Test for AR(2) = 1.252441, p-value = 0.2104

J-statistic = 196.92, Prob(J-statistic) = 0.028

DAC(-1) = time lag value of dependent variable.

Other variables as previously explained

Source: Author's calculation from the research data

4.8 Comparative Analysis between the Fixed Effects Model (FEM) and the System Generalized Method of Moments (SGMM)

To reinforce the reliability of the empirical findings, a comparative analysis between the fixed-effects model (FEM) and System Generalized Method of Moments (SGMM) was conducted. While FEM controls for unobserved heterogeneity across firms and countries, it may not adequately address endogeneity, particularly in dynamic relationships. Therefore, the SGMM estimator serves as a robustness check, accounting for potential endogeneity using internal instruments and capturing dynamic effects (Arellano & Bover, 1995; Blundell & Bond, 1998). The consistency of significant variables, such as political risk, GDP growth, and audit quality, across both models confirms the robustness of the results. However, the SGMM results differ slightly in magnitude and significance levels, reflecting its enhanced ability to handle simultaneity and dynamic structure, which the FEM may overlook. This suggests that while FEM offers valuable insights into firm-specific effects, SGMM provides a more reliable framework in the presence of endogenous regressors (Baltagi, 2021; Roodman, 2009).

4.9 Alignment of Empirical Results with Theoretical Frameworks

The findings from both the Fixed Effects Model (FEM) and the System Generalized Method of Moments (S-GMM) offer strong theoretical grounding. From the perspective of agency theory**,** the positive and significant relationship between political risk and discretionary accruals (FEM: $\beta = 0.028$, $p < 0.01$; S-GMM: $\beta = 0.031$, $p < 0.01$) confirms that political instability intensifies agency problems and encourages managerial earnings manipulation to safeguard self-interest or respond to uncertainty (Jensen & Meckling, 1976; Osei & Bedi, 2022; Mensah et al., 2023). This

supports institutional theory**,** which posits those weak institutions—common in politically volatile environments—create governance loopholes conducive to opportunistic behavior (North, 1990; Asongu, 2020).

According to stakeholder theory, the significant inverse relationship between audit quality and earnings management (FEM: $\beta = -0.020$, $p < 0.01$; S-GMM: $\beta = -0.016$, $p < 0.01$) highlights how firms respond to external accountability pressures by improving their audit oversight (Nkereuwem & Olayemi, 2022). The positive yet insignificant effect of leverage (FEM: $\beta = 0.017$, $p > 0.05$) aligns with the resource dependence theory, suggesting that firms may engage in earnings smoothing to secure capital or maintain favorable credit terms (Zhao et al., 2021). Information asymmetry theory is reflected in the significant negative coefficients for return on assets (FEM: $\beta = -0.030$, $p = 0.032$; S-GMM: $\beta = -0.028$, $p = 0.017$), implying that profitable firms reduce accrual manipulation because of lower informational gaps (Egbunike & Odum, 2022). Finally, legitimacy theory is supported by the significance of country dummies in the pooled OLS model (Country: $\beta = 0.037$, $p < 0.01$), suggesting that firms adjust disclosures in response to socio-political expectations to maintain legitimacy (Chandran & Arora, 2023). Thus, the empirical results align with and reinforce the theoretical underpinnings, confirming that political instability, governance quality, and firm characteristics jointly shape financial reporting behavior in Sub-Saharan Africa.

4.10 Discussion of Practical Implications of Findings

The empirical insights drawn from this study reveal a compelling intersection between political dynamics and the integrity of corporate financial reporting within sub-Saharan Africa. The findings suggest that instability in the political environment not only undermines investor confidence but also subtly erodes the transparency of corporate disclosures through heightened earnings manipulation. This dynamic highlights a broader concern: that the reliability of financial information, which serves as a cornerstone for investment decisions and capital allocation, can be compromised in settings where political structures are fragile or unpredictable.

In practical terms, these outcomes underscore the importance of institutional robustness and governance architecture in defending the effects of political volatility. Firms operating in politically sensitive environments may find themselves under pressure to manage earnings in ways that distort the true economic performance, particularly when regulatory oversight is weak or susceptible to interference. This behavior, while rational from a risk-mitigation perspective, poses significant challenges to the broader financial ecosystem, including creditors, investors, and regulators, all of whom rely on transparent financial statements for decision-making.

Furthermore, the observed influence of audit quality and board independence signals the relevance of internal governance mechanisms as counterbalances to external political pressures. Where institutional safeguards are lacking, the onus increasingly falls on firm-level controls to ensure the credibility of financial reporting. This study thereby informs policymakers and corporate stakeholders about the urgency of aligning governance reforms with financial reporting standards to promote a culture of accountability. The implications are particularly salient for economies seeking to attract foreign investment, as the assurance of financial integrity becomes a pivotal determinant of investor trust in high-risk political settings.

5. Conclusion

This study examines the relationship between political instability and financial reporting quality, measured through discretionary accruals, in selected sub-Saharan African countries. Drawing on a robust panel dataset and employing multiple econometric models including fixed effects and system GMM, the results consistently demonstrate that political instability has a significantly positive association with discretionary accruals. This implies that, as political risk intensifies, firms are more likely to engage in earnings management practices, thereby diminishing the credibility of financial statements. The fixed effects model was statistically validated through cross-sectional dependence and Hausman tests, confirming its appropriateness over the pooled OLS and random effects alternatives. Moreover, the system GMM results, which accounted for endogeneity and firm-specific dynamics, corroborated these findings while also reinforcing the importance of internal governance mechanisms, such as audit quality and board independence.

This study's findings have several policy implications. First, there is a pressing need for institutional reforms in politically unstable economies to strengthen the regulatory framework that governs financial reporting. Policymakers should invest in enhancing supervisory institutions' independence and effectiveness to mitigate the adverse effects of political volatility on corporate transparency. Second, audit regulators and professional accounting bodies should enforce stricter compliance with auditing standards, especially in countries where political interference is prevalent. These findings also suggest that firm-level governance mechanisms–particularly high-quality audits and board oversight–serve as critical buffers against earnings manipulation in politically sensitive environments.

Future research should explore the mediating roles of specific institutional mechanisms such as legal enforcement and investor protection in the nexus between political risk and financial reporting quality. In addition, expanding the scope to include other developing regions with similar institutional fragilities may offer comparative insights and strengthen the generalizability of our findings. The integration of macroeconomic variables and more granular firm-level attributes could deepen our understanding of the complex interplay between political environments and corporate reporting behavior.

Hence, this study makes a valuable contribution to the literature by bridging the theoretical framework employed with empirical evidence from politically volatile contexts. It emphasizes the centrality of institutional quality and governance in shaping the integrity of financial reporting, and provides actionable guidance for stakeholders to promote financial transparency and investor confidence in emerging markets.

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